

Date: 11th September, 2019

To
The Department of Corporate services
Bombay Stock Exchange Limited
P.J Towers, Dalal Street
Mumbai-400001

To
National Stock Exchange of India Limited
5th Floor, Exchange Plaza
Bandra (E)
Mumbai-400051

Scrip Code: - 540425

Scrip Symbol- SHANKARA

Dear Sir/Madam,

Subject: Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

We enclose herewith, a transcript of the Earnings Call of the Company with Analyst/Investors held on 14th August, 2019.

Kindly take the same on records.

Thanking You

Yours faithfully
For Shankara Building Products Limited

Ereena Vikram

Ereena Vikram
Company Secretary & Compliance Officer





“Shankara Building Products Limited
Q1 FY2020 Earnings Conference Call”

August 14, 2019



**MANAGEMENT: MR. SIDDHARTHA MUNDRA - CHIEF EXECUTIVE OFFICER, SHANKARA BUILDING PRODUCTS LIMITED
MR. C. RAVIKUMAR – EXECUTIVE DIRECTOR, SHANKARA BUILDING PRODUCTS LIMITED
MR. ALEX VARGHESE – CHIEF FINANCIAL OFFICER, SHANKARA BUILDING PRODUCTS LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Shankara Building Products Limited Q1 FY20 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the belief, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risk and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Siddhartha Mundra – CEO. Thank you and over to you Sir!

Siddhartha Mundra: Good morning everyone and a warm welcome to our Q1 FY20 Earning Conference Call. Today I am joined by Mr. C. Ravikumar – Executive Director, Mr. Alex Varghese – Chief Financial Officer and Strategic Growth Advisors, our Investor Relation Advisors. We have uploaded our updated results presentations on the exchanges, and I hope everybody had an opportunity to go through the same.

The second half of last year was a very challenging period for us due to the weak operating environment and the volatility in commodity prices. On the back of these events, we have communicated to the investors that we would be consolidating our operations and will work on a few key parameters as our short-term focus areas.

We have been observing an improving trend in our profitability after downward trend over the last couple of quarters and we are constantly focusing on improving our balance sheet, which will help us to sustain and grow in the long run.

Our immediate focus was to reduce the overall debt levels. We have been able to do that over the last couple of quarters. The overall debt plus acceptances at the end of Q1 FY20 stood at 318 Crores as compared to 497 Crores at the end of third quarter of FY2019.

Our conscious effort to reduce debt is also visible in our lower interest cost for the first quarter. In this context we have held our overall revenues static over the last couple of quarters and have also been able to increase our margins and profitability.

Our company level EBITDA margins post the impact of Ind AS 116 stood at 4.9% as compared to 2.7% in Q4 FY2019, an increase of over 2%. Our partial sale of assets in Chegunta, Hyderabad of Taurus Value Steels & Pipes has been completed and the proceeds have been utilized for business operation and debt repayment.

These assets were sold to focus more on our core business of retail and marketing where our core strength lies, focusing on building our Shankara Buildpro brand rather than focusing on manufacturing and processing.

To overcome the challenges of achieving scale benefits which have adverse effects on the profit margins and that what was dragging down the overall profitability of the company, and very importantly to curtail and mitigate risk from volatility of steel prices in the constantly changing business environments.

The loss of revenue by the sale of these assets has been replaced by trading of these products which are available in the market. Our overall gross margin between Q4 and Q1 has also been largely stable.

Over the last two quarters we have adopted a number of cost control measures across the company to reduce our overall expenses, especially on the processing and channel side of the business.

With effective and efficient cost control measures and reallocation of resources, we are confident of controlling our expenses to ensure that we maintain these margins going forward.

We are also focusing our time and energy towards increasing our share of revenues from newer product categories from the retail side of the business. This will drive the revenues and will help us maintain a sustainable margin in the long run. It has been our conscious effort over the last several quarters in organizing customers and influencers meet on regular basis across various locations, this helps us to build a connect between customers to display the various range of products that we have as well as to educate the participants about the products and the offerings.

Over the last quarter we have organized more than 50 influencer meets. These are done independently by Shankara as well as in collaboration with our brands. We have also increased our local marketing activities to build and sustain the brand name for Shankara Buildpro.

Our short-term focus continues to remain to increase the share of retail business and increase the overall new product sales.

Our efforts have led us to receive a number of awards from our suppliers as we have indicated in our investor presentation. To reiterate in this context that overall debt levels of

our company now stand at 318 Crores, our interest cost for Q1 FY2020 were down by about 10.3 Crores, which is key by Ind AS 116 impact as compared to 12.4 Crores in Q4, a sequential decline of over 17%.

Our long-term focus areas remain the same to increase the product offerings and impact in each product category to become a go-to shop for building material products which has all building products under one roof and to build the brand equity for Shankara Buildpro stores with trust and convenience being a key USP along with price competitiveness.

Let me now take you through the financial performance for the first quarter:

Our consolidated revenues grew by 3% for Q1 FY2020 as compared to Q4 FY2019. The revenues have largely grown on the retail side of the business which now contributes to around 56% of our overall revenues as compared to 57% in Q4 and 55% in Q3. EBITDA after the Ind AS 116 impact for Q1 FY2020 stood at 31.2 Crores as compared to 16.4 Crores in Q4 FY2019 a 90% Q-o-Q growth. EBITDA before the impact of Ind AS 116 would have been around 27 Crores. EBITDA margins for the quarter stood at 4.9% as compared to 2.7% in the last quarter, the increase in EBITDA was largely on account of a constant efforts on cost control measures, consolidating our operations as well as we are making higher margin products from our revenue streams.

Our overall retail EBITDA margins post the impact of Ind AS 116 stood at 8.1% for Q1 FY2020. PAT for the first quarter stood at 8.3 Crores as compared to 1.6 Crores in the last quarter and 2.5 Crores in Q3 FY2019, showing an increasing trend. Our constant effort for reducing the finance cost has also led us to increase our overall PAT levels.

Now to focus on the segmental performance of the company:

The retail sales for the first quarter stood at 360 Crores as compared to 352 Crores in the last quarter. Retail EBITDA stood at 29.1 Crores as compared to 25.6 Crores in Q4 a growth of around 14%. Retail EBITDA margins for Q1 FY2020 were 8.1% post the effect of Ind AS 116. The contribution of retail to the total revenue stood at 56% for Q1 FY2020. Due to our constant focus on growing our retail business, the share of retail revenue has increased from 51% in Q1 FY2019 to 56% in Q1 FY2020.

The average rental cost for leased outlets stood at Rs.20.2 per square feet per month. As on date we have 129 stores of which 111 stores are on the lease basis. The total area of the stores comes to around 5.56 lakh square feet with an average store size of around 4300 square feet. The sales split across the various Tier cities as follows: The Tier-I cities

accounted for around 40% of revenues, Tier-II 25% and Tier-III was 35%. The average ticket size for transaction was around Rs.28,000 for the first quarter. Of the total retail sale, construction materials contribute to around 60%, interior exterior around 20%, the newer products around 15% and agricultural products around 5%. Comparable sales growth stood at a negative 13% for Q1 FY2020 due to a higher base effect of Q1 FY2019.

Enterprise sales for the first quarter stood at 184 Crores. It contributed 29% of the overall revenues of the company. The top ten customers contributed to around 17% of the segment revenues. On the channel side the overall revenue stood at 95 Crores. This segment now contributes to 15% of the consolidated revenue of the company.

A few highlights on the processing and in-house supply chain:

The company has 11 processing facilities with a capacity utilization of 74% for the quarter. Sales from our own products contributed to around 30% of overall sales.

In summary, what we believe is that the measure that we have taken over the last few quarters should be good for us in the long run. We feel that incrementally things should be better going forward compared to that we have seen in the last few quarters.

We continue to believe that our business model is unique and has a very large and growing addressable market opportunity. We operate in a context of a highly fragmented unorganized competition. This gives us a significant opportunity to grow and capture market share. The network benefit that will accrue to us over a period of time can be very meaningful. As we build out our business a conviction only keeps increasing.

With this I open the floor for discussions.

Moderator:

Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Maulik Patel from Equirus Securities. Please go ahead.

Maulik Patel:

Siddhartha, a few questions, first on, in your opening comments you mentioned, the first priority was to improve the balance sheet, and working capital has probably improved, the debt has come down and we have sold certain assets also to repay debt. Now in your view, is this pain behind us, number one. With that when we can see improvement in the margin. Number two, when will we start coming to this growth path in terms of opening the stores, some colors on that?

Siddhartha Mundra: Maulik the path that we have chosen on debt reduction will continue for a period of time now. This path has been very consciously taken by us and we want to continue to get on that, and by end of this year we would aim to further reduce the overall debt numbers incrementally from these levels as well. What we internally feel is that the in the last year especially the last half has been quite challenging for us. We have done this transaction, which is the asset sale transaction, which we feel will help us in the long run. It helps us to release a lot of working capital, lot of investments that were behind with the assets and helps us to deploy this money over larger and more financially attractive assets on the retail side. So that is something that we will continue to focus. In terms of incremental store growth etc., we are not looking at any immediate expansion to our overall retail store count. Possibly we will take a look at this after a couple of quarters, but as of now we would want to ensure that the stores and the money that we have put out there deliver the kind of returns that we expect from them.

Maulik Patel: When you said that you want to further reduce the debt is there any benchmark you have kept aside or something in terms of for the debt to EBITDA or debt to equity which you can share with us?

Siddhartha Mundra: Immediately for this fiscal year what we are looking at is the broad levels of end of year debt of around 250 Crores to 275 Crores and we would want to be a net debt negative company over a period of time, but that is a path that will take us time, but yes we want to be, we do not want to carry the kind of debt levels that we have as of now.

Maulik Patel: When you said that, there is a specific focus on our debt reduction that means the growth will not turn or the growth will still remain from on a very low digit, single digit?

Siddhartha Mundra: See the growth is something that is challenging in the overall economic context as well, all of us are aware of the challenges now the segments are facing, a lot of this actually directly impact us as well, and in that context we want to hold on to our overall revenues. We do not want to degrow on the revenue side, but at the same point of time we want to be conscious that the balance sheet has to be strong and that is what we are focusing on as of now. It would have also notice that the overall margins that we have delivered even after the sale of assets is incrementally better.

Maulik Patel: Any revenue to be recorded from this, the sale of asset in Q1?

Siddhartha Mundra: Any revenues that have been recorded in Q1.

Maulik Patel: Or any margin has been recorded so when is the effective transfer date of the sale of assets?

Siddhartha Mundra: This is somewhere in the end of May, but effectively all these would have come as a part of discontinuing operations. So the whatever reported numbers that we have in terms of sales, EBITDA, PAT, we would have also notice the PAT from continuing operations and then there is another line item for the discontinued operations anything about that is above that 8.3 Crores PAT is on continuing operations.

Maulik Patel: When you say about the margin improvement at a store level, what kind of initiatives the company has taken to improve the per square foot realization?

Siddhartha Mundra: It is actually very basic steps only. in terms of one is to look at cross sell. If a customer has bought one product category from us, our endeavor is to sell him a larger bouquet of products and the thought process being that if the customer has got one product category, he has at least an element of trust either on us or in terms of the product or in terms of our pricing or whatever. Now why that is not getting transferred to the others category of products because we are equally competitive on all the product categories as well. So that is the broad focus that we have as of now to ensure that we are selling to the same customer a larger bouquet of products. We are as of now focusing more on a few product categories within our overall product basket. So that also brings in a lot more focus for us rather than studying ourselves in over a very, very large product basket, so some of the basic things that we are doing, lot of connects that are happening at a retail store level which includes a lot of influencer meets. This is to make the people aware of the range of products that we have, to make the brand also aware of the large market opportunity that can come through us. It is all basic stuff only.

Maulik Patel: I will come back in a queue. Thank you.

Moderator: Thank you. The next question is from the line of Pavan Kumar from Ratnatraya Capital. Please go ahead.

Pavan Kumar: Siddhartha what would be the level of steady state on the depreciation front because you have said that this particular transaction took place in May, so is there any amount of depreciation is there a scope of further reduction in depreciation or it is going to continue with the same run rate?

Siddhartha Mundra: On depreciation, actually what has happened that the Ind AS has kind of colored the picture a bit so Q4 and Q1 are not really comparable. So, I would urge you to look at one of the slides that we have put up on the presentation where we have presented the impact of depreciation. So effectively our depreciation has on account of Ind AS been over reported by 3.7 Crores as compared to, it is not having impact of Ind AS. So net-net if you look at it

our depreciation numbers have come down from last year, from Q4 to Q1 to our mind had without the impact of this depreciation, without the impact of this Ind AS kind of a thing on a comparable basis we should record a depreciation of around 12 Crores for FY2020.

- Pavan Kumar:** Look, but if we look at it from the Ind AS numbers then?
- Siddhartha Mundra:** From the Ind AS numbers the depreciation number itself is 4 Crores for the first quarter. I am assuming that this will continue for the remaining quarters as well. It will reduce.
- Alex Varghese:** The depreciation will be reducing in the coming quarters.
- Pavan Kumar:** Depreciation will be reducing in the coming quarters so can we know the run rate at which it might be for the next three quarters?
- Siddhartha Mundra:** Currently, we have reported 8.5 Crores for first quarter. So, by ending Q4 we should see a run rate of around 7 Crores on this line item for the quarter.
- Pavan Kumar:** That is despite the sale of Hyderabad facility?
- Siddhartha Mundra:** Yes. We have lot of other assets as well so we also have a lot of warehousing assets, lot of the retail assets are owned by us, lot of our branch offices are owned by us, in fact that is a kind of a hidden strength that the company has in terms of its overall infrastructure, the backend continues to be quite strong.
- Pavan Kumar:** On the sales figures reported, 360 Crores of retail revenue, , so my understanding is, there is going to be a certain reduction in channel and enterprise business revenues because of the sale of the unit to APL so are those revenues going to come back in any form because on retail side, we are not seeing any impact of those revenues as of yet?
- Siddhartha Mundra:** The transaction that we have done, it is an asset sale and not a business sale. So, the asset has been sold but the customers are technically not being sold. So, going forward the customer relationships are something that we can continue to leverage.
- Pavan Kumar:** But overall for this particular year are we saying the revenues are going, from the guidance front, are the revenues expected to be constant, I mean, more or less constant as compared to last year or how do we look at it?
- Siddhartha Mundra:** We should look at some higher single digit growth on the overall consolidated revenues. Yes, and Q3 and Q4 of last year is a base effect that will also start coming into play because

Q1, Q2 was slightly higher numbers for us especially Q1, so post that I think things should be good.

Pavan Kumar: Just want to recheck on one thing by the end of the year what was your net debt target?

Siddhartha Mundra: 250 Crores to 275 Crores.

Pavan Kumar: Thank you Sir.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Svan Investments. Please go ahead.

Sachin Kasera: Good afternoon. Regarding this debt reduction that we have seen in the quarter of around 70 Crores is primarily driven by the money that we received from the asset sales?

Siddhartha Mundra: Yes, a large part is driven by that.

Sachin Kasera: You mentioned regarding a target of 250 Crores to 270 Crores by end of March. So, from where we are in June this will be primarily driven by a reduction in working capital or from the cash flows?

Siddhartha Mundra: This will be for internal accruals that we will ensure that overall debt comes down.

Sachin Kasera: Will we not have any sales from lower inventory and debtors because of the sale of the assets?

Siddhartha Mundra: Yes, we will have lower working capital as well, you are right. Lower working capital, lower interest cost, all of these will contribute to our overall lowering debt levels.

Sachin Kasera: What was our inventory as of June and what do we expect it to be by end of the current year?

Siddhartha Mundra: We were at around 383 Crores as of end of last year and we should incrementally be looking at a 325 Crores to 350 Crores by end of this year.

Sachin Kasera: And as on June we would be more or less same as March?

Siddhartha Mundra: We are slightly higher than that, we are higher than the end of March. We are at around 400-odd Crores.

Sachin Kasera: You mentioned regarding reduction in working capital cycle, so we were like 46 days as last years' where do you hope to end FY2020?

Siddhartha Mundra: We were looking to kind of overall reduce the overall cycle further, so we were at 46 as you rightly mentioned, so we should be targeting at around 40 days or lower kind of numbers.

Sachin Kasera: Are we looking at any kind of a credit rating upgrade because of this debt reduction which we have done?

Siddhartha Mundra: Sorry what?

Sachin Kasera: Any rating upgrade because of the asset sale and the debt reduction can we look at the rating upgrade or it is more likely to be in the FY2021?

Siddhartha Mundra: We are quite hopeful of this because I think compared to what we were at the end of Q3 and Q4 we are much stronger and now there is profitability also looking up the overall strength of the company is also coming through we will be approaching the credit rating agencies again at the end after our first half results and that would be an appropriate time to talk with them about any revisions.

Sachin Kasera: How do we see the current year, full year, I think, it should be mentioned when the focus will remain on cash flow generation, debt reduction and we may start to see some growth from second half because of the base effect, so net, net for the full year do you think that we should be able to at least sustain the EBITDA of last year because of the second half growth or that you think in the current macro environment it will be a challenging period?

Siddhartha Mundra: As of now without Ind AS impact excluding the Ind AS impact I think we should be able to get to last year's EBITDA or possibly slightly lower because of the significant asset which has been sold on which we may not be able to generate the EBITDA, that otherwise would have been generated. But if you consider including the Ind AS impact, I mean, it is from our reported number perspective possibly we may able to beat last year's numbers.

Sachin Kasera: No, I am talking on a like-to-like basis?

Siddhartha Mundra: Like-to-like I think should be more or less in line,.

Sachin Kasera: Now the remaining residual assets which we have, can you share what is the thought process out there? what is the current level of capital employed there and what is the types of margins we are expecting this year on the manufacturing side?

- Siddhartha Mundra:** On the residual assets that we have, so these assets have generated around 30% of our overall sales for the first quarter. They have generated an EBITDA margin of around 4.6% and this have been compared to margins of around 2.5%, 3% that we saw in Q3 and Q4 so incrementally that has moved up and in terms of their utilizations currently which stood at around 75% for the first quarter. So there are two assets there, one is color coated roofing sheet asset that we have essentially and then as we have one more asset in Vishal which is largely for some of the pipes and steels production as of now we will continue to hold on to the assets.
- Sachin Kasera:** What is the current capital including the manufacturing operations?
- Siddhartha Mundra:** Overall, capital employed to my mind in terms of fixed assets, net fixed assets, it would be around 100 Crores would be the net fixed asset assets on the residual amount.
- Sachin Kasera:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.
- Dhaval Shah:** Siddhartha, just one question. I missed the EBITDA impact of this 116, what will be our EBITDA for the accounting adjustment?
- Siddhartha Mundra:** It will be around 28-odd Crores.
- Dhaval Shah:** Should not it be so, the rent is not included in the other expenses?
- Siddhartha Mundra:** Yes, rent has not been included.
- Dhaval Shah:** The finance cost would be how much just the finance cost the interest?
- Siddhartha Mundra:** Yes, just the finance cost is around 10.34 Crores taking the Ind AS adjustment it will go to 11.3 Crores.
- Dhaval Shah:** Depreciation is higher by 3.7 Crores?
- Siddhartha Mundra:** Yes. Net-net our post Ind AS PBT has been under reported by 58 lakhs, . Had Ind AS not been there our PBT would have been higher by 58 lakhs.
- Dhaval Shah:** Correct, Sir now if you are saying, so the EBITDA is higher by 3 Crores because of the rent issue?

- Siddhartha Mundra:** Correct.
- Dhaval Shah:** Great, thank you.
- Moderator:** Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.
- Deepak Poddar:** Thank you very much for the opportunity. Sir my question pertains to your retail segment now earlier you have been talking about retail growth of about 20% for this year now that the first quarter I think has degrew by about 10% rate. So, are we kind of still maintaining that kind of a growth overall for the year?
- Siddhartha Mundra:** No, as we mentioned we will not be looking at revenue growth as a substantial metric for this year, our metric for this year largely is going to be around the balance sheet. We feel there are lot of challenges in the work environment and it is good for us preserve the balance sheet in this uncertain environment. So, till that effect, we will see some element of growth both in retail and in our overall consolidated revenues but this will be not to the extent that we have seen in the past.
- Deepak Poddar:** Not 20% but maybe a 10%, 12% kind of a growth in retail segment that would be a fair thing to kind of projection.
- Siddhartha Mundra:** Yes.
- Deepak Poddar:** Even to grow at 12% I think you need to grow more than about 20% for the rest of nine months right?
- Siddhartha Mundra:** Yes.
- Deepak Poddar:** Sir this quarter your retail EBITDA margin was about 8.1%. due to Ind AS 116 that jumps from 7.2 to 8.1 so there was an improvement of 0.9 now they have been talking about 6% to 8% kind of a range, now with Ind AS 116 is there, any kind of increase in that range or how should we look that?
- Siddhartha Mundra:** It will be remaining the same.
- Deepak Poddar:** Currently we are at the higher band of that range, so we are looking this kind of a EBITDA margin as a stable margin for retail segment only?
- Siddhartha Mundra:** Sorry we missed you there, but could you repeat the question once again?

- Deepak Poddar:** No, I was just trying to understand that in terms of retail the EBITDA margin that we have reported is this kind of a stable steady state kind of a margin that we can see going forward?
- Siddhartha Mundra:** Yes, see the reported EBITDA margin is 8.1% but if you adjust it for our Ind AS impact that is around 7.2% and we have largely guided for a 6% to 8% band. Even Q4 last year we were at 7.3% so we are largely going to be in this range.
- Deepak Poddar:** That it is from my side. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Naitik Mody from OHM Group. Please go ahead.
- Naitik Mody:** Siddhartha, if you could give me a breakup of own product sales and third party product sales within the retail segment, this quarter and what was the sale in last quarter also, I mean, Y-o-Y.
- Siddhartha Mundra:** Our own product sales for retail were around 27% for this quarter Q1 FY2020.
- Naitik Mody:** And the third party was the remaining 73%.
- Siddhartha Mundra:** Yes.
- Naitik Mody:** What was the same contribution last year same quarter?
- Siddhartha Mundra:** Same quarter last year Q1 FY2019 was 43% of own products of retail.
- Naitik Mody:** What would be the broad gross margins in the third-party product sales?
- Siddhartha Mundra:** In the third party product sales we would be making and it depends across the category which will be a range of 6% to 15%.
- Naitik Mody:** What would be, what product category would be contributing more in the higher margin range?
- Siddhartha Mundra:** No, the lower margin range, so if you can assume let us say around 10% would be the overall gross margins on the retail side.
- Naitik Mody:** Thank you Sir.

- Moderator:** Thank you. The next question is from the line of Maulik Patel from Equirus Securities. Please go ahead.
- Maulik Patel:** Siddhartha, can you mention that what is the volume we have sold, I mean, the processing volume which we have produced this quarter for the revenue of 191 Crores which is 30% of our overall revenue?
- Siddhartha Mundra:** Yes, we have manufactured around 33,000 tonnes.
- Maulik Patel:** Sorry can you repeat it?
- Siddhartha Mundra:** 33,000 tonnes.
- Maulik Patel:** And what was this number in Q4 approximately.
- Siddhartha Mundra:** 51,000.
- Maulik Patel:** So this 33,000 does not include any volume from the facility which we have sold right?
- Siddhartha Mundra:** No, we have not taken discontinued operation in Q1 Maulik.
- Maulik Patel:** Thanks.
- Moderator:** Thank you. The next question is a follow-up question from the line of Sachin Kasera from Svan Investments. Please go ahead.
- Sachin Kasera:** Just one clarification, this EBITDA in the presentation of 29 Crores of retail is before other overheads correct?
- Siddhartha Mundra:** Yes, that is the segment EBITDA. Yes, that is the segment EBITDA we have mentioned.
- Sachin Kasera:** No I am, before the corporate expenses correct.
- Siddhartha Mundra:** Yes.
- Sachin Kasera:** The number of 4 and 4.3%, I think that you mentioned for the manufacturing operations is that also before the unallocable corporate expenses or after that?

- Siddhartha Mundra:** The processing EBITDA margin that we have mentioned are for the subsidiaries so these are the margins that we have recorded in the subsidiaries which do their manufacturing operations so yes you can consider that this is pre-corporate overheads.
- Sachin Kasera:** Last year as per the reported numbers our unallocable corporate expense was 50 Crores last year, Q1 number is 15.6 now how do we see this number for the full year it should remain at 50 or it should reduce because of the sale of the assets?
- Siddhartha Mundra:** see our corporate overheads also include depreciation so if you take out depreciation the overall number was around 35.8 Crores that was for the full year last year and this should see a sequential drop over the course of this year by around 10%.
- Sachin Kasera:** So this 50 Crores should see a reduction both on account around 3 Crores because of the sale of assets on the operating expenses, and plus on some depreciation reduction because the asset is no longer in your books.
- Siddhartha Mundra:** Whatever efficiencies that have to accrue on account of that sale are already included in the segment margins. Now this is beyond that where we are saying that the 35.8 Crores of overheads that we had this we are looking to reduce by 10% during the course of this year.
- Sachin Kasera:** The deprecation of plant & Machinery should also reduce because the asset is no longer in the books that was my question?
- Siddhartha Mundra:** Yes, the depreciation should reduce but there is an impact of it is Ind AS so the reported number will look higher but on like-to-like it will come down by around 6, 6.5 Crores.
- Sachin Kasera:** Lastly one question of return on capital, we were at around 25% for FY2017 and then we reduced to 16%, this year going by what you are talking about we should be in somewhere around 16%, 17% on this year. So, when do we start getting back to the 20% return on capital say FY2021, FY2022 what is your thought?
- Siddhartha Mundra:** Yes 2021 should be a good year.
- Sachin Kasera:** When do we start to look at new store opening or we will continue to focus on SSSG at least for next three four quarters?
- Siddhartha Mundra:** Next couple of quarters we are not looking for new stores then we will take a call post that.
- Sachin Kasera:** Thank you so much.

- Moderator:** Thank you. We have the follow-up question from the line of Pavan Kumar from Ratnatraya Capital. Please go ahead.
- Pavan Kumar:** Siddhartha any target on taking the product mix of new products in the interior, exterior products higher going forward?
- Siddhartha Mundra:** Yes, absolutely that is the target. We are working towards that. There is the all the point to an earlier question which we alluded to was targeted towards this activity where we want to ensure that a larger part of a construction is purchased through our stores. There is a larger influencer community becomes aware of the range of products that we have. We are also given a very competitive pricing across the entire range of products. So, the entire focus is to ensure that the larger range of products the revenues increased.
- Pavan Kumar:** On the manufacturing front what should be the steady state target since the sale of assets has already taken place in terms of volume?
- Siddhartha Mundra:** On the manufacturing side we have recorded around 33000-odd tonnes of production for first quarter which was around a 75% tonnes of capacity utilization I think in the current context in the current environment context possibly this may continue for this quarter as well if it is to improve it will be post Diwali or something Q3 and Q4 which also are generally better quarters for us and if the demand improves then I think possibly you can start seeing some updates there.
- Pavan Kumar:** And in Q4 what was this level?
- Siddhartha Mundra:** In Q4 we had done a production of around 51000 tonnes.
- Pavan Kumar:** Q4 and Q1 both include the Hyderabad facility or does not include the Hyderabad facility.
- Siddhartha Mundra:** Q1 does not include.
- Pavan Kumar:** Q1 does not include that is effectively your production levels have gone up in whatever facility you have built in?
- Pavan Kumar:** So, let us say in Q4.
- Siddhartha Mundra:** This is not like-to-like. This is not like-to-like comparison so for Taurus our production was 20,500 odd tonnes which has fallen to 5,000 odd tonnes. Yes, so Q1 for Taurus at 5,000 tonnes that is not included in the assets which have been sold.

- Pavan Kumar:** So Q4 does include 20,000 tonnes for Taurus?
- Siddhartha Mundra:** Yes, so I mean just to kind of be clear Q4 had this asset which we have sold including that assets of Q4 the overall production was 50800 tonnes which included 20500 tonnes in Taurus. Now Taurus has two units actually. One unit is having been sold there is a much smaller unit which we have retained. Now this smaller unit has generated an overall production of 5000-odd tonnes for the first quarter and our overall production processing volumes at an overall group was around 33,000 tonnes for the quarter.
- Pavan Kumar:** We expect his 33000 tonnes to continue?
- Siddhartha Mundra:** Yes.
- Moderator:** Thank you. Next question is from the line of Sachin Kasera from Svan Investments. Please go ahead.
- Sachin Kasera:** This quarter the margin improvement that we have seen in the channel & enterprise do you see some more scope for improvement there as you go ahead or now most of the conditions these are the steady state margins?
- Siddhartha Mundra:** See channel & enterprise, if you would have seen the trend the last couple of quarters have been very bad. We have been more at 1% to 2% kind of a margin, this quarter we have inched up to 3.5%. I think in the near point these kind of margins could be okay while in earlier years we have recorded much higher margins around 5.5%, 6% as well in this segment, but I think in the current context overall context I think these sort of margins should be, so this is what we should expect.
- Sachin Kasera:** When do we start to see a topline growth in this segment because I think quarter-on-quarter the margins have improved but the topline remains flattish when do we start to see the topline growth?
- Siddhartha Mundra:** You would have noticed one thing on the channel side that after consistent declines over several quarters this quarter sequentially the revenues have been higher. What we probably feel is that the overall decline in the channel segment may be done, and we do not anticipate any further declines on the channel side. The rest of the segments continue to be growth focus which we have indicated earlier as well it will continue to grow.
- Sachin Kasera:** So for the full year we can look at 10% to 15% is lower number compared to last year?

